



# Parent \$marts

## What Every Student Should Know About Credit Cards

*83% of college students have at least one credit card; the typical student carries a balance of \$2,300. Six percent of students carry balances greater than \$7,000. (Nellie Mae, 2002)*

Credit cards have become a way of life for college students. Obtaining a credit card is usually no problem. From the time a student arrives on campus, representatives from credit card companies are handing out T-shirts, mugs, and other “freebies” just for filling out a credit card application. The best defense against this marketing strategy is to educate your student about the importance of using credit wisely.

Discuss with your student whether a credit card is the right option for him/her. There are options other than a traditional credit card. For example:

A **low-limit credit card** is an option some parents use to help their child apply for a credit card by co-signing for an account with a low set limit.

**Prepaid cards** allow parents to set spending limits and monitor where their children are spending money through monthly statements and through Internet accounts that show daily transactions. The parents transfer money from

their own checking account to the card for a small transaction fee, and the card can be used like any other credit card to make purchases.

Whichever choice you make as a parent, make sure your student understands the basics of credit card usage.

- **A credit card isn’t free money.** It shouldn’t be a money substitute for items your student can’t afford. They should only charge what they can afford to pay back.

- **Shop around for a card.** Look for cards with low interest rates and minimal finance charges. Avoid cards that charge an annual fee and/or a fee to transfer balances.

Use the chart at the end of this fact sheet to help your student understand the cost of credit and to select the right credit card.

- **Watch out for teaser rates.** Credit card companies offer low introductory rates to attract new customers, especially students. Then these rates increase after only a few months.
- **Use only one credit card.** It’s easier to manage one bill at the end of the month.

Over 80% of college students have at least one credit card.

- **Pay in full and on time every month.** It's important to pay bills in full, but if not, encourage your student to at least pay more than the minimum payment due each month. Paying only the minimum amount may not reduce the amount owed, because of interest charges added.
- **Avoid cash advances.** The fastest way to accumulate interest and fees on a credit card is to borrow money as a cash advance. Most card issuers charge at least 20 percent interest. Issuers may also charge a fee for each cash advance with no grace period for paying it back. If your student needs cash, talk with them about other alternatives.
- **Review statements.** Encourage your student to check their statement each month. If they see something on their statement that is incorrect, they should call their credit card issuer immediately and follow-up with a letter detailing the problem.
- **Protect credit information.** Limit the number of credit cards your student carries. Encourage them to cancel cards they no longer use or that cost more than their other cards. They should not share their account information with friends or classmates or give out credit card information over their cell phone.
- **Report a lost or stolen card immediately.** Have your student make a list of all of their credit card information including the card issuer, the card number, the expiration date, and the number to call in case their card is lost or stolen. Have them keep this

information in a safe and secure location. Should they lose their card or have it stolen, they can immediately contact their issuer so they will minimize liability for any unauthorized use.

Following these basic credit guidelines will put your student on the road to financial success! Moreover, it will help your student to get off to a \$mart start in building a good credit history and becoming a \$mart credit consumer.

### Shopping for a Credit Card

Name of Issuer	Issuer #1	Issuer #2	Issuer #3
Credit Limit			
Annual Percentage Rate (APR)			
Annual Fee			
Late Fee			
Over Limit Fee			
APR for Cash Advances			
Balance Transfer Fee			

Sources: Nellie Mae (2002), <http://www.nelliemae.org>.

Credit Card Smarts Fact Sheets (2001), University of Illinois Extension, <http://www.ace.uiuc.edu/cfe/ccs>.

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